



National Association
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**Statement of the
National Association of Independent Insurers
to the
Commissioner of Financial and Insurance Services
Regarding the Use of Credit Information
by Personal Lines Insurers**

Port Huron – June 16, 2002

My name is Jeffrey Brewer and I am with the National Association of Independent Insurers. NAII is a national trade association and we represent nearly half of the property and casualty insurers in the state of Michigan.

Commissioner, today we have reached the half way point in the series of hearings that you are conducting around the state and I would like to take a few moments to reinforce several key points.

First, as we have heard from the “real-world” experience of insurance companies – the use of insurance scoring is helping consumers pay less for insurance. Companies have reported that 60 – 70 and even 80 percent of their customers receive discounts. Most people have good credit and can benefit from insurance scoring.

Banning the use of credit for rating purposes would truly be a disservice to Michigan consumers by forcing good risks to subsidize bad risks. Michigan insurers merely desire to charge policyholders the appropriate amount for the risk they represent.

In Portage we heard from Eddie Lo of Fair. Isaac and today from Jeff Skelton of ChoicePoints on how credit factors correlate with the likelihood of insurance losses.

We have seen and heard from companies that have compared their own data to insurance scores and the evidence shows that there is a strong correlation. In addition, there have been independent studies such as the Tillinghast-Towers Perrin study that demonstrates a 99 percent probability of a relationship between insurance scores and the likelihood of an individual filing an insurance claim.

While at first glance the relationship between the use of credit information and insurance is not clear for many people. But as I talk with people they are able to understand the connection between insurance scoring and loss potential from a risk taking and responsible behavior perspective.

The factors being considered to develop an insurance score: do you pay your bills on time, have you filed bankruptcy, etc., -- these factors can be generalized as being indicative of careful, responsible behavior.

We believe this type of careful, responsible behavior carries over into other areas of life and that helps to put the relationship of insurance scores and loss potential into perspective.

Insurers are not looking to predict whether someone will pay back consumer debt. The way insurers use credit information is designed to predict the likelihood of an insurance loss. The factors and weighting are developed to identify credit management patterns that have been proven to correlate with the probability of an insurance loss. This tool helps to assess risk.

Insurers are interested in having available as many tools as possible to assist them in making objective decisions. Insurance scores provide insurers another tool to use in making sound rating decisions.

Bear in mind, most companies use insurance scoring as just one of several factors being considered. It helps insurers develop a more complete picture of the likelihood of someone filing a claim.

There have also been studies that show that insurance scores of people in lower income levels are virtually the same as those in higher income groups. As you are aware, the Virginia Bureau of Insurance, among many things, concluded that insurance scoring is an accurate predictor to assess insurance risks and that neither income or

race alone is a reliable predictor of insurance scores thus making the use of insurance scoring an ineffective tool for redlining.

In closing, Michigan currently has one of the most restrictive laws when it comes to insurers' use of insurance scores. Michigan's insurers can not use credit for underwriting decisions even though most other states do permit it.

This tool helps to prevent people who pose less risk from subsidizing high-risk policyholders. By law, it can only be used as a discount and perhaps most importantly, the majority of consumers are benefiting from its use.

If NAIL can be of further assistance on this matter, we would be happy to help.